

CITY OF SEYMOUR
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

Peak & Gerdes, LLP
Certified Public Accountants
1051 Office Park Road
West Des Moines, IA 50265

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City of Seymour

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January, 2006)		
Thomas G. Rembe	Mayor	January 2, 2006
Marilyn Snider	Mayor ProTem	January 2, 2006
Marilyn Boggs	Council Member	January 2, 2008
Larry McCann	Council Member	January 2, 2006
Michelle McMurry	Council Member	January 2, 2008
Byron Moore	Council Member	January 2, 2006
Mary Haines	City Clerk	January 2, 2006
Steve Goodlow	City Attorney	Indefinite
(After January, 2006)		
Sheryl Dotts	Mayor	January 2, 2010
Marilyn Snider	Mayor ProTem	January 2, 2010
Marilyn Boggs	Council Member	January 2, 2008
Larry McCann	Council Member	January 2, 2010
Michelle McMurry	Council Member	January 2, 2008
Byron Moore	Council Member	January 2, 2010
Mary Haines	City Clerk	January 2, 2008
Steve Goodlow	City Attorney	Indefinite

City of Seymour

PEAK & GERDES, LLP
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1051 OFFICE PARK ROAD
WEST DES MOINES, IA 50265

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Seymour, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Seymour's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Seymour as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in note 14, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our report dated November 22, 2006 on our consideration of the City of Seymour's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Budgetary comparison information on pages 19 and 20 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

City of Seymour, Iowa, has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined as necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Seymour's basic financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Peak & Gerdes, LLP
Certified Public Accountants

November 22, 2006

Basic Financial Statements

City of Seymour

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2006

Functions / Programs	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 176,225	740	23,361	55,000
Public works	69,733	-	73,253	-
Culture and recreation	46,690	4,249	5,153	-
Community and economic development	46,062	-	-	13,132
General government	31,160	3,998	-	-
Debt service	16,688	-	-	-
Total governmental activities	386,558	8,987	101,767	68,132
Business type activities:				
Sewer	122,551	70,877	-	-
Water	113,015	125,003	-	-
Garbage	46,294	51,655	-	-
Total business type activities	281,860	247,535	-	-
Total	\$ 668,418	256,522	101,767	68,132

General Receipts:

Property tax levied for:
 General purposes
 Debt service
 Unrestricted interest on investments
 Loan proceeds
 Miscellaneous
 Sale of assets
 Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Streets
 Debt service
 Other purposes
 Unrestricted

Total cash basis net assets

See notes to financial statements.

Exhibit A

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(97,124)	-	(97,124)
3,520	-	3,520
(37,288)	-	(37,288)
(32,930)	-	(32,930)
(27,162)	-	(27,162)
(16,688)	-	(16,688)
(207,672)	-	(207,672)
-	(51,674)	(51,674)
-	11,988	(11,988)
-	5,361	5,361
-	(34,325)	(34,325)
(207,672)	(34,325)	(241,997)
91,971	-	91,971
15,435	-	15,435
8,047	4,033	12,080
30,849	85,000	115,849
15,621	971	16,592
1,072	-	1,072
(8,550)	8,550	-
154,445	98,554	252,999
(53,227)	64,229	11,002
438,660	179,641	618,301
\$ 385,433	243,870	629,303
\$ 68,036	-	68,036
321	2,039	2,360
169,224	-	169,224
147,852	241,831	389,683
\$ 385,433	243,870	629,303

City of Seymour

Exhibit B

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2006

	General	Special Revenue Road Use Tax	Nonmajor	Total
Receipts:				
Property tax	\$ 64,839	-	42,567	107,406
Licenses and permits	1,583	-	-	1,583
Use of money and property	8,040	-	901	8,941
Intergovernmental	93,434	73,253	-	166,687
Miscellaneous	16,042	-	9,301	25,343
Total receipts	183,938	73,253	52,769	309,960
Disbursements:				
Operating:				
Public safety	164,306	-	11,919	176,225
Public works	9,650	47,676	12,407	69,733
Culture and recreation	43,810	-	2,880	46,690
Community and economic development	46,062	-	-	46,062
General government	20,601	-	10,559	31,160
Debt service	-	-	16,688	16,688
Total disbursements	284,429	47,676	54,453	386,558
Excess (deficiency) of receipts over (under) disbursements	(100,491)	25,577	(1,684)	(76,598)
Other financing sources (uses):				
Sale of fixed assets	1,072	-	-	1,072
Loan proceeds	30,849	-	-	30,849
Operating transfers in	10,500	-	2,550	13,050
Operating transfers out	(21,600)	-	-	(21,600)
Total other financing sources (uses)	20,821	-	2,550	23,371
Net change in cash balances	(79,670)	25,577	866	(53,227)
Cash balances beginning of year	227,522	42,459	168,679	438,660
Cash balances end of year	\$ 147,852	68,036	169,545	385,433
Cash Basis Fund Balances				
Reserved:				
Debt Service	\$ -	-	321	321
Unreserved:				
General fund	147,852	-	-	147,852
Special revenue funds	-	68,036	132,489	200,525
Permanent fund	-	-	36,735	36,735
Total cash basis fund balances	\$ 147,852	68,036	169,545	385,433

See notes to financial statements.

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2006

	Enterprise Funds			
	Sewer	Water	Garbage	Total
Operating receipts:				
Charges for service	\$ 70,877	125,003	51,655	247,535
Total operating receipts	70,877	125,003	51,655	247,535
Operating disbursements:				
Business type activities	65,891	113,015	46,294	225,200
Total operating disbursements	65,891	113,015	46,294	225,200
Excess of operating receipts over operating disbursements	4,986	11,988	5,361	22,335
Non-operating receipts (disbursements):				
Interest on investments	1,721	2,246	66	4,033
Miscellaneous	449	406	116	971
Loan proceeds	85,000	-	-	85,000
Debt service	(56,660)	-	-	(56,660)
Total non-operating receipts (disbursements)	30,510	2,652	182	33,344
Excess of receipts over disbursements	35,496	14,640	5,543	55,679
Other financing sources (uses):				
Operating transfers in	21,600	-	-	21,600
Operating transfers out	-	(6,550)	(6,500)	(13,050)
Total other financing sources (uses)	21,600	(6,550)	(6,500)	8,550
Net change in cash balances	57,096	8,090	(957)	64,229
Cash balances beginning of year	44,457	107,004	28,180	179,641
Cash balances end of year	\$ 101,553	115,094	27,223	243,870
Cash Basis Fund Balances				
Reserved for debt service	\$ 2,039	-	-	2,039
Unreserved	99,514	115,094	27,223	241,831
Total cash basis fund balances	\$ 101,553	115,094	27,223	243,870

See notes to financial statements.

City of Seymour

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Seymour is a political subdivision of the State of Iowa located in Wayne County. It operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, culture and recreation, community and economic development, and general governmental services. The City also provides water, sewer and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Seymour has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

These financial statements present the City of Seymour (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit – The City of Seymour Library is included in the financial statements of the City of Seymour because its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Library is governed by a seven-member board appointed by the Mayor with the approval of the City Council.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Area 15 Regional Planning Commission, Wayne County Assessor's Conference Board, Wayne County Development Corporation, and the Area XV Multi-County Housing Agency.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The City reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Water Fund accounts for the operation and maintenance of the City's water system.

The Garbage Fund accounts for the operation and maintenance of the City's garbage system.

C. **Measurement Focus and Basis of Accounting**

The City of Seymour maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety activities function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had Deferred Compensation Plan investments of \$57,825 at June 30, 2006, that is not subject to risk categorization.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

(3) Notes and Bonds Payable

Annual debt service requirements to maturity for general obligation notes, notes payable and revenue bonds are as follows:

Year Ending June 30,	General Obligation Notes		Notes Payable		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 15,000	\$ 563	\$ 7,792	\$ -	\$ -	\$ -	\$ 22,792	\$ 563
2008	-	-	8,500	-	16,623	14,420	25,123	14,420
2009	-	-	8,500	-	17,454	13,355	25,954	13,355
2010	-	-	8,500	-	18,327	12,682	26,827	12,682
2011	-	-	8,500	-	19,243	11,766	27,743	11,766
2012-2016	-	-	40,375	-	111,648	43,397	152,023	43,397
2017-2020	-	-	-	-	105,107	12,887	105,107	12,887
Total	\$ 15,000	\$ 563	\$ 82,167	\$ -	\$ 288,402	\$ 108,507	\$ 385,569	\$ 109,070

Revenue Bonds

The resolutions providing for the issuance of the sewer revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity.
- (b) The City shall make annual payments of \$31,009, including interest at 5% per year, through July 1, 2019.
- (c) Sufficient monthly cash transfers shall be made to the sewer bond sinking account for the purpose of making the above payment when due.
- (d) Additional monthly cash transfers shall be made to the sewer bond reserve account to accumulate at least the maximum amount of principal and interest coming due in any succeeding year. This account is restricted for making the annual principal and interest payments whenever there is insufficient money in the sewer bond sinking account.
- (e) Also, the City shall make monthly cash transfers to the Sanitary Sewer Equipment Replacement account until the account accumulates at least a minimum amount of \$21,720.

Notes Payable – Clarke County Electric Co-Op

The City is indebted to Clarke County Electric Co-Op in the amount of \$82,167. As of June 30, 2006, these funds were not yet spent. These funds are to be used to finance the replacement of a sewer lift station. The repayment of the note is due in monthly installments of \$708.33 for 120 months, with no interest. The final payment is due on March 1, 2016.

(4) Lease Purchase Obligation

The City is purchasing office equipment under a capital lease contract. Future payments in relation to this lease are as follows:

Year Ended June 30,	Principal	Interest	Total Payment
2007	\$ 719	\$ 61	\$ 780
2008	756	24	780
2009	65	1	66
Total	\$ 1,540	\$ 86	\$ 1,626

(5) Line of Credit

The City has a line of credit with US Bank. As of June 30, 2006, the City owed \$30,849 on this debt, at an interest rate of 7.75%, which matures on June 13, 2007. The City and US Bank are unable to provide written documentation regarding the maximum amount that may be borrowed, and how the related interest rate is computed.

(6) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the year ended June 30, 2006 was \$8,348, equal to the required contributions for the year.

(7) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for compensated absences payable to employees at June 30, 2006 primarily relating to the General Fund, was \$3,953. The liability has been computed based on rates of pay in effect at June 30, 2006.

(8) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the functional level. During the year ended June 30, 2006, disbursements in the Public Safety function exceeded the amounts budgeted.

(9) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer To	Transfer From	Amount
Debt Service	Enterprise: Water	\$ 2,550
Enterprise: Sewer	General	21,600
General	Enterprise: Water	4,000
	Garbage	6,500
		<u>10,500</u>
Total		<u>\$ 34,650</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(10) Deferred Compensation Plan

The City offers its employees a deferred compensation plan as allowed by Internal Revenue Code Section 457. The plan allows City employees to defer a portion of their current salary until future years. The employee becomes eligible to withdraw funds upon termination, retirement, or death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights, are, until made available to the participant or other beneficiary, solely the property and rights of the City, without being restricted to the provision of benefits under the plan, subject only to the claims of the City's general creditors.

The City is responsible for due care in managing the investments and the participant or beneficiary assumes the risk of loss from decreases in the value of plan assets. At June 30, 2006, plan assets consisted entirely of annuities purchased from private insurance companies.

The City records the plan assets and related activity in a special revenue fund. Investments held by the deferred compensation plan administrator are reported at fair value.

(11) Related Party Transactions

The City had business transactions between the City and City officials, totaling \$326 during the year ended June 30, 2006.

(12) Risk Management

The City of Seymour is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(13) Deficit Fund Balance

The Special Revenue Fund, Employee Benefits had a deficit balance of \$11,475 at June 30, 2006. This fund incurred a deficit as the City spent more money than they brought in. The City plans to eliminate the deficit through an increase in property taxes.

(14) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented for fiscal year ended June 30, 2006. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type.

Implementation of these standards had no effect on the beginning balances of the City.

(15) Commitments and Contingencies

The City of Seymour purchases all of its water for resale from the Rathbun Regional Water Association, Inc. In July, 2006, the City paid approximately \$90,000 for costs associated with the purchase of a fire truck and sewer repair costs. This merchandise and services were received in fiscal year 2006, but were not paid until fiscal year 2007.

(16) Subsequent Events

The City received a block grant for housing rehabilitation. Approximately \$220,000 remains to be spent on this grant as of June 30, 2006. It is anticipated that these funds will be spent in fiscal year 2007.

Required Supplementary Information

City of Seymour

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Original	Amounts Final	Final to Total Variance
Receipts:						
Property tax	\$ 107,406	-	107,406	116,695	116,695	(9,289)
Licenses and permits	1,583	-	1,583	4,348	4,348	(2,765)
Use of money and property	8,941	4,033	12,974	8,637	8,637	4,337
Intergovernmental	166,687	-	166,687	95,659	285,659	(118,972)
Charges for service	-	247,535	247,535	260,284	260,284	(12,749)
Miscellaneous	25,343	971	26,314	5,202	90,202	(63,888)
Total receipts	309,960	252,539	562,499	490,825	765,825	(203,326)
Disbursements:						
Public safety	176,225	-	176,225	66,454	176,187	(38)
Public works	69,733	-	69,733	90,798	95,478	25,745
Culture and recreation	46,690	-	46,690	42,162	54,514	7,824
Community and economic development	46,062	-	46,062	1,655	136,655	90,593
General government	31,160	-	31,160	28,713	32,713	1,553
Debt service	16,688	-	16,688	16,688	16,688	-
Business type activities	-	281,860	281,860	244,355	365,548	83,688
Total disbursements	386,558	281,860	668,418	490,825	877,783	209,365
Excess (deficiency) of receipts over (under) disbursements	(76,598)	(29,321)	(105,919)	-	(111,958)	6,039
Other financing sources, net	23,371	93,550	116,921	-	-	116,921
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(53,227)	64,229	11,002	-	(111,958)	122,960
Balances beginning of year	438,660	179,641	618,301	475,197	475,197	143,104
Balances end of year	\$ 385,433	243,870	629,303	475,197	363,239	266,064

See accompanying independent auditor's report.

City of Seymour

Notes to Required Supplementary Information-Budgetary Reporting

June 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$386,958. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety function.

Other Supplementary Information

City of Seymour

Schedule 1

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2006

	Special Revenue				Debt Service	Permanent	
	Mapleleaf Park	Employee Benefits	Seymour Industrial Development	Deferred Compensation		Cemetery Perpetual Care	Total
Receipts:							
Property tax	\$ -	27,132	-	-	15,435	-	42,567
Use of money and property	894	-	7	-	-	-	901
Miscellaneous	-	16	1,328	5,913	-	2,044	9,301
Total receipts	894	27,148	1,335	5,913	15,435	2,044	52,769
Disbursements:							
Operating:							
Public safety	-	11,919	-	-	-	-	11,919
Public works	-	12,407	-	-	-	-	12,407
Culture and recreation	2,328	552	-	-	-	-	2,880
General government	-	10,559	-	-	-	-	10,559
Debt service	-	-	-	-	16,688	-	16,688
Total disbursements	2,328	35,437	-	-	16,688	-	54,453
Excess (deficiency) of receipts over (under) disbursements	(1,434)	(8,289)	1,335	5,913	(1,253)	2,044	(1,684)
Other financing sources (uses):							
Operating transfers in (out)	-	-	-	-	2,550	-	2,550
Net change in cash balances	(1,434)	(8,289)	1,335	5,913	1,297	2,044	866
Cash balances beginning of year	74,877	(3,186)	11,361	51,912	(976)	34,691	168,679
Cash balances end of year	\$ 73,443	(11,475)	12,696	57,825	321	36,735	169,545
Cash Basis Fund Balances							
Reserved:							
Debt service	\$ -	-	-	-	321	-	321
Unreserved:							
Special revenue funds	73,443	(11,475)	12,696	57,825	-	-	132,489
Permanent fund	-	-	-	-	-	36,735	36,735
Total cash basis fund balances	\$ 73,443	(11,475)	12,696	57,825	321	36,735	169,545

See accompanying independent auditor's report.

City of Seymour

Schedule 2

Schedule of Indebtedness

Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount		Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
			Originally Issued							
General Obligation Notes- Water System Improvements	December 1, 1990	7.10-7.80%	\$ 175,000		30,000	-	15,000	15,000	1,688	-
Revenue Bonds - Sanitary Sewer	June 10, 1980	5.00%	\$ 523,000		304,122	-	15,720	288,402	15,289	-
Line of Credit	June 13, 2006	7.75%	\$ 30,849		-	30,849	-	30,849	-	-
Notes Payable - Clarke County Electric Co-Op	June 1, 2005	3.00%	\$ 22,650		22,650	-	22,650	-	167	-
Clarke County Electric Co-Op	March 13, 2006	-	85,000		-	85,000	2,833	82,167	-	-
					\$ 22,650	85,000	25,483	82,167	167	-
Lease Purchase Agreement Equipment	August 1, 2003	5.00%	\$ 3,444		2,225	-	685	1,540	95	-

See accompanying independent auditor's report

City of Seymour

Schedule 3

Bond and Note Maturities

June 30, 2006

Year Ending June 30,	Notes Payable Issued March 13, 2006		General Obligation Notes Issued December 1, 1990		Revenue Bonds Issued June 10, 1980	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2007	-	\$ 7,792	7.50%	\$ 15,000	5.00%	\$ -
2008	-	8,500	-	-	5.00%	16,623
2009	-	8,500	-	-	5.00%	17,454
2010	-	8,500	-	-	5.00%	18,327
2011	-	8,500	-	-	5.00%	19,243
2012-2016	-	40,375	-	-	5.00%	111,648
2017-2020	-	-	-	-	5.00%	105,107
		<u>\$ 82,167</u>		<u>\$ 15,000</u>		<u>\$ 288,402</u>

See accompanying independent auditor's report.

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Year

	<u>2006</u>
Receipts:	
Property tax	\$ 107,406
Licenses and permits	1,583
Use of money and property	8,941
Intergovernmental	166,687
Miscellaneous	<u>25,135</u>
Total	<u>\$ 309,752</u>
Disbursements:	
Operating:	
Public safety	\$ 176,225
Public works	69,733
Culture and recreation	47,464
Community and economic development	46,062
General government	31,175
Debt service	<u>16,688</u>
Total	<u>\$ 387,347</u>

See accompanying independent auditor's report.

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Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Seymour, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 22, 2006. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Seymour's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Seymour's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items I-A-06, I-B-06 and I-C-06 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Seymour's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Seymour and other parties to whom the City of Seymour may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Seymour during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Peak & Gerdes, LLP
Certified Public Accountants

November 22, 2006

City of Seymour

Schedule of Findings

Year Ended June 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The issuance of receipt slips, bank deposits and the posting of the cash receipts to the accounting records are sometimes all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will consider this.

Conclusion - Response acknowledged. The City could segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

I-B-06 Reconciliation of Utility Billings and Collections – Utility billings and collections were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We will make sure that the reconciliation is done for each billing period and will designate an independent person to review the reconciliation each month.

Conclusion - Response accepted.

I-C-06 Library – Members of the Library Board are supposed to oversee the operations of the public library, including financial activities. It appears the Library Board receives inaccurate and incomplete financial information about the library from library personnel. No evidence could be found that the Library Board even asks for corrected information or inquires about these differences. As Library Board members, these individuals have a fiduciary responsibility to the public to review and approve of the financial activities of the public library. It does not appear that the Library Board members have met this fiduciary responsibility.

Recommendation – The Library Board meet its fiduciary responsibility to the public and review and approve financial activities of the library, including a review and approval of accurate and complete financial information.

Response – We will take this under advisement.

Conclusion – Response accepted.

City of Seymour

Schedule of Findings

Year Ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

II-A-06 Certified Budget - Disbursements during the year ended June 30, 2006, exceeded the amounts budgeted in the public safety function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-06 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-06 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transactions Description	Amount
Marilyn Boggs, Council Member Owns Johnson Tire with husband	Vehicle supplies	\$326

In accordance with Chapter 362.5(11) of the Code of Iowa, the above transactions do not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

II-E-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-06 Deposits and Investments - Instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted. The City's investment policy refers to an outdated section of the Code of Iowa.

Recommendation - The City's investment policy, which currently refers to Chapter 452 of the Code of Iowa, should be amended to the current chapters of 12B and 12C of the Code of Iowa, which cover governmental investment guidelines.

Response - We will amend our investment policy.

Conclusion - Response accepted.

II-H-06 Revenue Bonds and Notes - The City has complied with the revenue bond resolutions.

City of Seymour

Schedule of Findings

Year Ended June 30, 2006

- II-I-06 Financial Condition – The Special Revenue, Employee Benefits Fund had a deficit balance of \$11,475 at June 30, 2006.
- Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.
- Response – We are aware of this situation, and will have to raise property taxes in order to eliminate this deficit.
- Conclusion – Response accepted.
- II-J-06 Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. On some bank accounts, the City retains cancelled checks through electronic image, but does not obtain an image of the back of the cancelled check as required.
- Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.
- Response – We will implement this recommendation.
- Conclusion – Response accepted.
- II-K-06 Loans – During the year, the City obtained loans from two different sources. Chapters 384.24, 384.24A and 362.3 of the Code of Iowa documents the guidelines which must be followed prior to borrowing funds on behalf of the City. These Code Sections state that a notice of proposed action for the issuance of debt be published between four and twenty days prior to the public hearing. Our review noted that for these two loans, the notice of proposed action was not published and a public hearing was not held.
- The City has a line of credit with US Bank. The City and US Bank are unable to provide written documentation regarding the maximum amount that may be borrowed, and how the related interest rate is computed.
- Recommendation – The City should consult with their Attorney to determine the proper disposition of these issues.
- Response – We will review this.
- Conclusion – Response accepted.
- II-L-06 Annual Report – Because the annual report did not include the financial transactions and balances of the public library, the beginning and ending balances and transactions recorded on the City's annual financial report to the State of Iowa were not accurate. An accurate annual report is required by Chapter 384.22 of the Code of Iowa.
- Recommendation – The City implement procedures to ensure the annual report to the State of Iowa agrees to the City's accounting records.
- Response – We will review this area.
- Conclusion – Response accepted.

City of Seymour

Schedule of Findings

Year Ended June 30, 2006

II-M-06 Meter Deposits – The City maintains a list of all customers, and the related dollar amount of meter deposit each customer has on file with the City. The City also maintains a meter deposit fund. However, the dollar amount of meter deposits held for each customer does not materially agree to the dollar amount recorded in the meter deposit fund as of June 30, 2006.

Recommendation – The City periodically reconcile the dollar amount of meter deposits held for each customer with the dollar amount recorded in the meter deposit fund. Any differences should then be investigated and resolved.

Response – We will implement this recommendation.

Conclusion – Response accepted.

II-N-06 Fuel Procedures – A fuel log is not maintained on diesel fuel. In addition, there is no reconciliation between gallons of diesel fuel and gasohol purchased, used or on hand. Also, fuel logs are not maintained in each vehicle and machine.

Recommendation – The City keep fuel logs on diesel fuel, and in each individual vehicle and machine. In addition, the City should implement procedures to reconcile gallons of fuel purchased, used, and on hand for all fuel. Furthermore, these logs and this reconciliation should be periodically reviewed for unusual items.

Response – We will review this area.

Conclusion – Response accepted.

II-O-06 Property Sale – The City disposed of some real estate during the year. In one instance it does not appear the City followed the requirements as noted in Chapter 364.7 and 362.3 of the Code of Iowa in regards to procedures that must be followed in disposing real estate.

Recommendation – For real estate dispositions, the City implement procedures to ensure the Code of Iowa requirements are met.

Response – We will implement this recommendation.

Conclusion – Response accepted.

II-P-06 Library – The Library has not filed State of Iowa Job Service reports. The bank interest rates on some Library certificate of deposits were less than the interest rates as established by the State of Iowa Rate Setting Committee.

Recommendation – The Library file Job Service reports. In addition, the Library should implement procedures to ensure interest rates earned on certificate of deposits meet or exceed the interest rates established by the State of Iowa Rate Setting Committee.

Response – We will discuss these issues with the Library.

Conclusion – Response accepted.